

CENTRAL INTELLIGENCE AGENCY

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The Honorable John K. Tabor  
Acting Secretary of Commerce  
Department of Commerce  
Washington, D.C. 20230

Dear Mr. Tabor:

Thank you very much for the copy of your second competitive assessment briefing for the President's Council on Economic Policy. In response to your request, I have had my economists take a look at the briefings. Their comments are included in the enclosure.

Let me know if we can be of further assistance.

Sincerely,

/s/ W. E. Colby

W. E. Colby  
Director

Enclosure

CONCUR:

[Redacted Signature]

Deputy Director for Intelligence

Date

ODDI [Redacted] swr (11 September 1973)

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SUBJECT: Comment on Department of Commerce Briefing

1. We found the briefing and related material both interesting and informative and generally subscribe to your overall conclusion that the currency changes, rapid growth abroad, and heavy foreign demands for U.S. agricultural products have contributed to the improved U.S. trade performance.

2. Our analysis of foreign economies, however, makes us somewhat less sanguine about U.S. trade prospects than is the briefing. As you indicate, the most important factor in the improved trade performance has been the tremendous jump in agricultural exports -- both in value and quantity. Much of this improvement is transitory, however. Although 1974 will probably also be a very good year for U.S. agriculture, some decline in sales is likely thereafter as foreign output increases. Also the crude materials deficit, now the major component of the overall U.S. trade deficit, is very likely to grow rapidly over the next few years.

3. The dollar depreciation has undoubtedly been a factor in the decline in the U.S. trade deficit, particularly in manufactures. A number of developments, however, have lessened the depreciation's impact. The rapid growth in U.S. export prices in national currency relative to export prices in other countries -- both for exports as a whole and for manufactured exports -- has offset some of the competitive advantage resulting from the depreciation. In West Germany, for example, export prices in marks have increased at an average annual rate of only 2.3% since June 1972, compared with 14.0% in the United States. It is interesting to note in this regard that with the exception of Japan, where the trade balance has been particularly affected by transitory factors such as the commodity price boom, the trade balances of the countries whose currencies have appreciated have all either improved or remained essentially unchanged.